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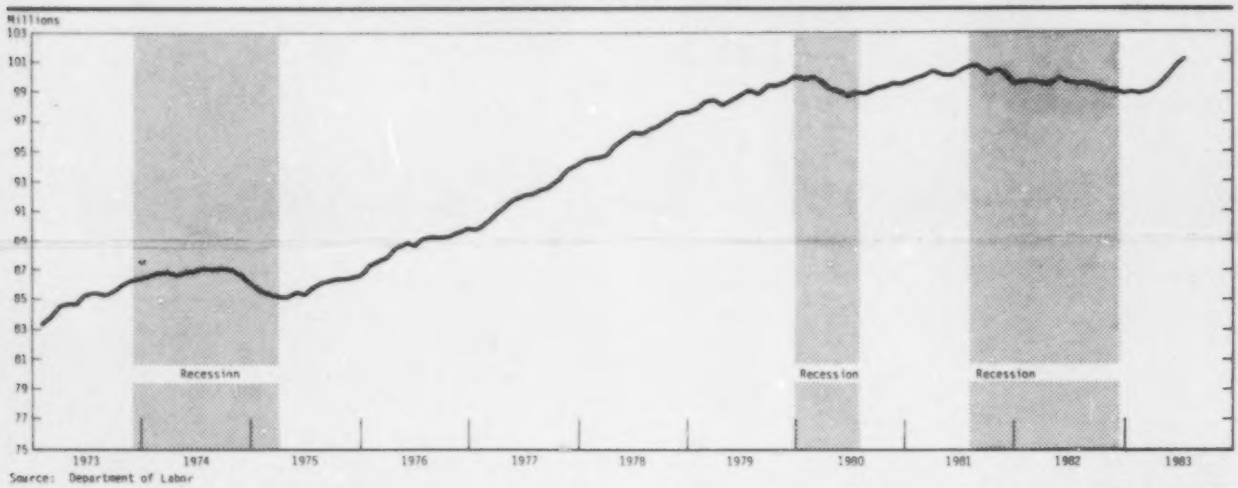
FinanceFacts

A Monthly Publication on Consumer Financial Behavior AUGUST 1983

Total Civilian Employment

By Months (Seasonally Adjusted) 1973-1983



Source: Department of Labor

Defying the forecasts of many analysts who predicted the current cyclical upswing would be unusually slow, the expansion gained speed sharply in the second quarter. Real gross national product expanded at a 9.2% annual rate in the second quarter, up from a sluggish 2.6% growth rate in the prior period. Likewise, industrial production advanced at nearly a 20% annual pace March through July and unemployment fell. The unemployment rate for civilian workers declined to 9.5% of the labor force in July from its high of 10.8% in December and 10.3% as recently as March. Although temporary setbacks are always possible (and certainly not unprecedented historically), the unemployment rate should continue to decline through this year and next as the economy maintains its recovery.

Of course, at 9.5% of the civilian labor force, unemployment remains high by historical experience since World War II. Last year's 9.5% average unemployment is the highest of any year in the postwar period. Still, focusing solely on the (admittedly important) unemployment figure overlooks some interesting information on the resiliency of the American economy in general and its labor markets in particular. The chart shows that in July this year total civilian employment reached 101.3 million surpassing the previous all-time high of 101.0 million set in April 1981. Furthermore, the employment upturn following the recent recession has been more rapid than following the 1973-75 downturn. In the earlier recession total employment fell only 2.2%, but it took 10 months to regain its former peak. In the recent recession total civilian employment fell 1.9% but

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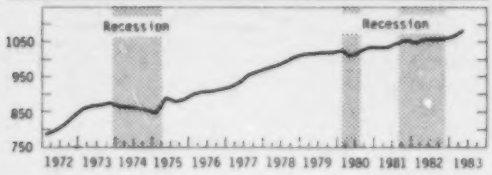
Real Disposable Personal Income
(Quarterly, Seasonally Adjusted Annual Rates)
1972 $ Billions



Source: Department of Commerce

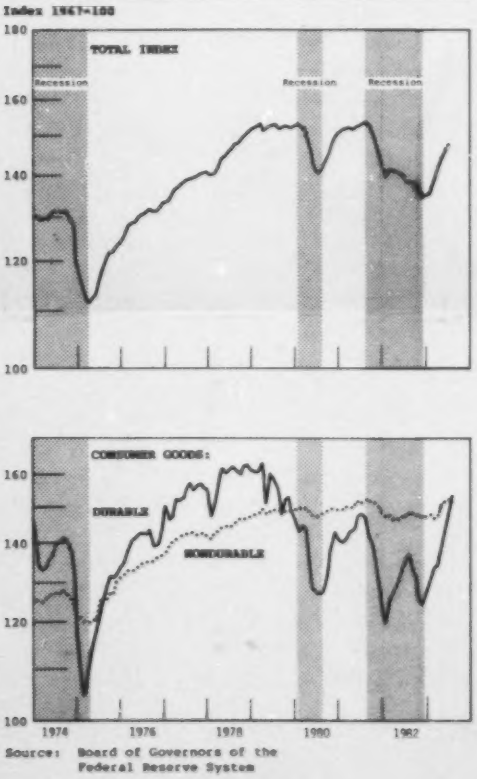
PERSONAL INCOME

Personal income increased in the second quarter of 1983 - by 0.7% in April, 1.2% in May and 0.5% in June. The increase in July was estimated at 0.6%. Dollar figures for the annualized amount of disposable personal income received were: $2,286.9 billion per year (April), $2,306.8 billion (May), $2,315.2 billion (June) and a preliminary $2,355.5 billion in July. These figures represent increases of 0.9%, 0.9%, 0.4%, and 1.7%. In July, personal outlays totalled $2,238.6 billion (annual rate), leaving savings at $116.8 billion, or about 4% of personal income.

CONSUMER INSTALLMENT CREDIT

Growth in consumer installment credit outstanding overall was stronger in June than it has been since September 1979, increasing by a seasonally adjusted $4.41 billion. Increases occurred in all types of credit, but were strongest in automobile and revolving credit, which grew at 17.7% and 22.2%, respectively. The June figure brings growth in the second quarter of 1983 to almost 11%, compared with 7% in the first quarter and only 4% in all of 1982. The total amount of consumer installment credit outstanding in June was $354.7 million of which $96.0 million, or 27.06% was held by finance companies.

Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the
Federal Reserve System

INDUSTRIAL PRODUCTION

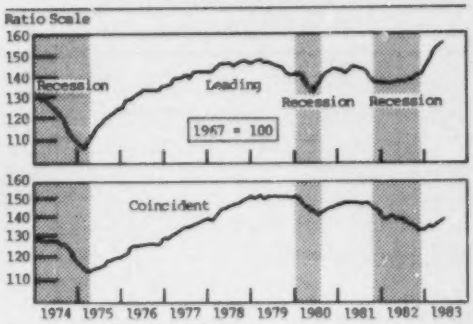
The index of total industrial production, seasonally adjusted, increased by approximately 1.8% in July. The index, at 148.6 (1967=100), is 10.2% above the low at the end of the recession in November 1982. Total industrial production is up 10.16% over the last year.

Production of consumer goods increased 1.7% overall, with durable and nondurable goods rising 3.4% and 1.1% respectively. The index levels for these two market groups were estimated at 154.2 and 153.9. Auto and household goods production were noted as particularly strong components of the growth in durable goods.

ECONOMIC INDICATORS

The index of leading economic indicators took quite a large jump in June, according to revised information released by the Department of Commerce this week, and rose only slightly in July by the preliminary estimate. The previously released June figure of 1.0% was revised to 1.9%, and the increase for July was estimated at 0.3%, signaling to some a "slowdown" in the current recovery. Considering the magnitude of the revision to the preliminary estimate for June, however, the revised July figure may suggest a more robust performance when it is released next month. The coincident index has risen more steadily over the past two months, showing increases of 1.1% in each.

Composite Indexes By Month
1974-1983

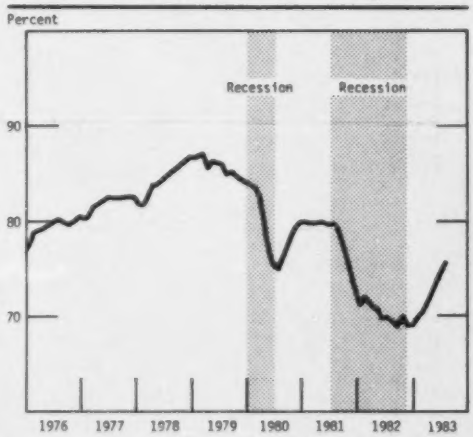


Source. Department of Commerce

CONSUMER PRICES

The Consumer Price Index for All Urban Consumers (CPI-U) rose a seasonally adjusted 0.4% in July, following an increase of 0.2% in June. The compound annual rate for the three months ended in July was 4.7%, and at its new level of 299.3 the index is 2.4% higher than one year ago. The strongest component changes contributing to the modest rise in the CPI-U were in grocery store food prices and prices of "other goods and services." Grocery store food prices fell for the second month in a row by 0.1% (following 0.6% in June). In the "other goods and services" category, prices rose 1.3%.

Capacity Utilization -
Total Manufacturing



Source: Federal Reserve Board

CAPACITY UTILIZATION

Capacity utilization in manufacturing, after seasonal adjustment, rose from 74.6% in June to 75.8% in July, continuing the improvement that has occurred throughout 1983 and reaching the highest level yet since the 1982 low of 68.8%, which occurred in November. Consistent with the large gains reported in production of durable goods above, especially in autos, utilization of domestic auto plants rose almost 7 percentage points to 77.3% - a four-year high.

Ysabel M. Burns

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took only 5 months after the February trough to regain its former high.

The chart shows that high unemployment rates in recent years do not result from utter failure of the American economy to produce new jobs over time. In fact, the total number of civilian jobs rose steadily 1975-79. Instead, recent high unemployment rates arise from a number of factors, some visible in the chart, but others not.

One factor is the rapidity with which the 1981-82 recession followed the 1980 downturn. Employment had only barely regained its earlier peak in 1981 before it was battered downward again toward the end of that year. Since the population and labor force kept growing, the unemployed proportion rose sharply. A second factor is the high labor force participation rate in recent years compared to historical experience. (The labor force participation rate is the proportion of the noninstitutional population over the age of 15 which has or is looking for a job.) On account of more working women and more two-earner families, the year-average civilian labor force participation rate rose above 64% for the first time in 1982, and at 64.3% in July 1983, remains near its postwar high for any month. As the participation rate rises, it exacerbates usual labor market pressures brought on by normal population growth. If a larger portion of the population wants jobs, employment must grow faster to keep unemployment from rising. A third factor is the labor force bulge caused by the last of the baby boom generation reaching employment age in the past half decade. Because unemployment rates are normally higher among teenagers, an increase in younger members of the labor force tends to increase unemployment, other things equal.

If severe recessions can be avoided in the mid 1980's, the unemployment picture should improve. Steady economic growth should generate new employment in the civilian economy. Growth in the participation rate should slow, especially if lower inflation makes fewer families feel the need for additional breadwinners. Finally, as the baby boomers reach their mid twenties, many will have gained skills and experience that will make them more productive and employable workers and less prone to unemployment.

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